General Ledger/Chart of Accounts and Financial Reporting Best Practices Summary

5-31-06

General Ledger/Chart of Accounts

Notes from –

"Consolidating the Chart of Accounts --
Applying Master Data Management to a long-standing problem".
Robert D. Kugel, *VentanaView*™ , © 2005 Ventana Research

Master data management (MDM) holds the promise of enabling large corporations to deal with a long-standing problem: *harmonizing their charts of accounts*. Having a single chart of accounts (COA) across all businesses would simplify many time-sensitive processes at the ends of fiscal periods. Achieving a single COA is often undesirable or problematic for operational and political reasons. The business systems of major operating units may be distinct enough to warrant different treatments, and managers of subsidiary groups often have vested interests in maintaining those differences.

The main objective of harmonizing COAs is to speed the consolidation, closing and reporting cycles by reducing the amount of manual work required for their completion. Other benefits include a) greater transparency and b) limiting the chance of fraud and errors that are the inevitable by-product of any manual system.

Standing in the way of harmonization has been resistance by business unit managers that have vested interests in assessing their results according to their definition of the account structure. The direct expense of having to maintain dissimilar COAs is the extra time required to roll up and consolidate the periodic results (including the time spent finding and correcting errors); indirect costs include lags in getting critical business information to managers, limited transparency, lack of accountability and distorted measurements of operating results.

The major obstacles companies encounter in harmonizing their COAs are the politics of achieving agreement on the ultimate COA as well as the time-consuming nature of making changes to all the accounting systems. The promise of Master Data Management is that by creating a *software-defined abstraction leve*l, top-down decisions about the "virtual" chart of accounts can be implemented without having to change underlying systems. Having an abstraction level should enable enterprises to have parallel rather than sequential or iterative consolidation paths for statutory, management and tax accounting. This would a) produce a faster, cleaner financial reporting process, b) simplify and accelerate management reporting, and c) allow companies to centralize control over financial and managerial reporting if they prefer and manage tax implications far earlier in the closing cycle than is possible today.

Master Data Management practice applied to the chart of accounts is a discipline that requires up-front thought and ongoing work as well as management of corporate politics and decision-making (governance). It demands a non-trivial investment up front, refinements in the first several years of operation and ongoing maintenance. MDM also requires finance, lines of business and IT to engage fully in the initial steps to make it a workable reality. It is, in other words, a significant enterprise undertaking. However, the

measurable payoffs from implementing a master data management approach to the chart of accounts could be considerable.

Notes from –
"A New Look at the Chart of Accounts", Accenture, Government Executive Series, Nov 2003

Common limitations of legacy Chart of Accounts structures:

1. Subject to discontinuity between budgeting and accounting
    - Legacy chart of accounts typically are designed based upon an organizations budget structure which cannot support grant and project budgeting. Therefore departments have developed "shadow systems" to meet their unique needs.
    - Antiquated budget structures also contribute to a disconnection between accounting and budgeting. Since the legacy Chart of Accounts tends to reflect the budget structure, accountants often have significant work in reclassifying the data for financial reporting purposes according to different accounting standards.
2. Subject to field and data inconsistencies and interdependencies
    - Legacy structures have a limited number of fields typically focused on fund, department and account fields. Program, project and/or grant and cost accounting fields are often missing or considered non-integral elements and have limited functionality.
3. Cannot support progressive financial practices
    - Governments consistently call for more program analysis to better allocate public funds – however, because common Chart of Accounts and budget structures lack program fields and their associated input/output measurements, government executives are constantly challenged to perform true program evaluation and budgeting.
    - The government accounting and finance field has also been recommending use of commercial financial practices, such as activity-based costing and performance measurement – however legacy designs often lack activity and statistical fields, limiting the central agencies ability to access and analyze information.

Opportunities Now

1. New Technology
    - Modern enterprise resource planning (ERP) systems are based upon relational database architectures that enable a multi-dimensional Chart of Accounts that allows organizations to view financial information in a vast number of combinations and at multiple levels of detail.
2. More Field Flexibility
    - "Project" and "grant" fields are now standard elements in new Chart of Accounts structures as are "program" and "activity" elements. In addition, alternate account and fund fields support statutory accounting requirements
3. Data Trees
    - Most of the major ERP systems, Charts of Accounts elements can be used in a data tree tool that not only displays the structure of a field, but also summaries the field in different ways for different purposes, allowing

executives to meet a wide range of reporting requirements for various internal and external stakeholders.

4. Greater Budget Structure Accommodation
    - Budget structure capabilities of the new systems offer some of the best opportunities to precipitate change and meet multiple budgeting objectives.
5. Enhanced statistical capabilities
    - Modern financial systems support statistical accounting capabilities that legacy systems typically lacked – that can be used for cost accounting, cost allocations, and for input/output measurements for performance or program metrics.

Potential Benefits

1. Elimination of shadow systems
    - Shadow systems are costly and divert department/agency resources from their primary missions.
    - Creates cost savings by reducing the hardware and software maintenance costs of stand-alone systems.
    - Errors are reduced.
    - More flexible and powerful Chart of Accounts
    - Organizations speak common language, improving communication and financial interpretation.
2. Aligning state and county requirements
3. Data normalization
    - Indirectly reduces the time financial personnel spend trying to put fragmented information together into a usable format for decision makers
    - Added benefit is the opportunity to “clean up” the legacy data.
4. More efficient and effective financial reporting
    - A flexible, robust data model with sophisticated data tree and reporting capabilities can make a significant difference in the quality and timeliness of financial reporting
    - When the Chart of Accounts is designed with the reporting toolset in mind, organizations gain efficiencies by suing the new system to product the financial reports instead of compiling them externally
5. Improvement of accounting and budgeting practices
    - Take the opportunity when designing a new chart of accounts to question accounting and budgeting practices
    - Capabilities of the Chart of Accounts and budget structures in modern financial systems give rise to information requests never asked before.
6. Improvement of the decision-making process
7. Flexibility to support progressive financial practices
    - New Chart of Accounts structures provide program field, program budgeting and statistical program input/output measurements which can be used in conjunction with other Chart of Accounts elements for effective program evaluation.
8. Facilitation of significant reorganization

Implementation Considerations

1. Follow a structured methodology for redesigning a Chart of Accounts
2. Implement a new Chart of Accounts structure, whether with an existing system or with a new system, at the beginning of a fiscal year.

3. Chart of Accounts design needs to occur at the beginning of a system implementation project.
4. Challenges
    - Organizational inability or unwillingness to alter budget structure and practices
    - Regulatory requirements and accounting standards that conflict with an organizations information objectives
    - Comparability issues with historical information
    - External system integration
    - Resistance to change
    - Coordination, education, executive ownership and communication
    - Overusing the general ledger

Notes from –
"Building Better Financial Management Support --
Functions, systems and activities for producing financial information",
Australian National Audit Office, July 2002

The *finance function* is the primary provider of financial information. If this function is to add-value it needs to take a greater role in decision support by providing users of financial information with analysis and insights based on a thorough understanding of the business.

The finance function encompasses more than the finance area. It includes all activities and processes undertaken which relate to transaction processing, financial reporting, control and decision-making. This will typically involve staff from both the central finance area and from operational areas.

In better practice organizations finance staff spend time with line mangers to see things 'from the other side of the fence'. There is an increasing trend toward embedding qualified, skilled finance staff in operating/service delivery units rather than in a central finance area. These staff take on a business partnering role, providing financial analysis, working with line managers to solve operational problems. This contrasts with the trend toward re-centralization of transaction processing through the use of shared services centers or out-sourcing.

The trend to devolution of authority of the past decade has generally been accompanied by decentralization of processes. These included business support processes such as those undertaken within the finance function. Inevitably this led to duplication and also increased the risk of inconsistency through a lack of standardization.

In response, many better practice organizations have established *shared services centers* as an alternative to out-sourcing accounting processes. In shared services a group of business units create a separate entity within the organization. Common services-including accounting, finance, payroll, collections-are assigned to this entity and the entity is perceived and managed as an 'outside' vendor.

The concept of shared services centers is simple: bring together functions that are frequently duplicated across business units or locations, and provide these services at a lower cost through achieving economies of scale and removal of duplication.

Shared services centers are not re-centralized corporate support functions. They operate as freestanding, autonomous businesses, usually at an independent location, away from headquarters, sometimes in a 'green field' location. They generally involve actual or notional charging for services and are therefore subject to internal and external market forces.

Financial information systems need to capture and structure data to make it relevant to users' needs. This means they must be able to integrate strategic, financial and operational information in a way which supports all management processes, with the ultimate objective of creating transparency across the organization, and ensuring continuity of information from strategy through to execution.

A structured approach to consideration of the information systems that are required by an organization commences with a review of existing systems. This review should establish whether the existing systems can provide the information required by users.

It is important to establish data structures from a strategic perspective to ensure that the data meets users' financial information needs fully and efficiently. In particular the process must allow data from different dimensions and levels within the organization to be collected, reconciled and consolidated, to enable alternative views of performance to be produced.

Two key determinants of the data structure for an organization are its *chart of accounts* and the set up of its *general ledger*. To maximize the leverage from their systems, better practice organizations generally implement:

- A simple, universal chart of accounts that applies to all organizational units; and
- A single general ledger.

For this implementation to be effective there must be a clear understanding about operational details such as:

- The level of disaggregation required (should the data be in the form of individual transactions or aggregated?);
- The attributes of the data (does the data need to be provided in one view or many views?);
- The measurement basis (cash or accrual?); and
- The relationship with non-financial data (what non-financial data is required, where might it be derived from, and how might it be integrated with the financial data?).

Many systems currently available have the capacity to collect and utilize non-financial data in their general ledger modules. The chart of accounts structure may also need to accommodate this requirement.

<u>The chart of accounts</u>

The chart of accounts is the framework for categorizing assets, liabilities, revenues and expenses. Many organizations have multiple charts of accounts used by different

business units and/or locations. Creating a common chart of accounts establishes a foundation for consistency in terminology and serves to eliminate redundant accounts. The number of accounts and cost centers within the general ledger are significant cost drivers in general ledger processing. They also contribute to complexity, thereby increasing the risk of misclassification and the need for corrective journal entries.

There is no 'right' number of accounts or cost centers-the principle is to minimize the number to the extent necessary for management and external reporting purposes. This can be partly achieved by reviewing the level of activity in each account over time. An integrated accounting system also permits the use of relatively high level accounts in the general ledger, with more detailed accounts in the subsidiary ledgers.

Over 90% of organizations in the Arthur Andersen Global Best Practices® database have fewer than 10,000 accounts-of these, *almost half have fewer than 1,000* accounts in their general ledgers.

The general ledger

Large, decentralized organizations, particularly those with 'legacy' accounting systems, tend to operate multiple general ledgers. Each may have their own charts of accounts and business rules. They may also require some form of consolidation, which is rarely fully automated, to produce entity-wide financial reports.

Given the current sophistication of accounting software and telecommunications, it is possible to develop a single general ledger, in *effect a single set of books*, for all business units. Capturing all transactions and balances, from subsidiary ledgers and directly, into a single ledger permits central control over data integrity and speeds up end of period reporting.

In addition to a centralized general ledger, most better performing organizations require data entry at source, preferably, on-line and in real time. They hold operational staff accountable for the accuracy and integrity of the data in the general ledger. There is a philosophy of 'getting it right' the first time, with errors returned to the originator of the data for correction.

An integrated accounting system also lies at the core of the financial management information system in most, better practice organizations. These systems provide separate modules of software for the functions of accounting-such as general ledger, accounts payable, accounts receivable, payroll, budgeting and financial reporting-in a coordinated manner. The data entered into one module are used in others, thereby eliminating duplicate data entry and reducing errors. In many cases integration eliminates the need for time consuming reconciliations, required when subsidiary ledgers and memorandum accounts are maintained as separate systems.

Financial Reporting

Communicating relevant and reliable financial performance information across an organization to those who need it, when they need it, is fundamental to good corporate governance.

The financial information extracted from an organization’s accounting systems is an important component of the suite of performance information provided to managers and to the governing body. It is also used in the production of an organization’s annual financial statements-an external, regulatory imperative closely aligned with the stewardship component of good corporate governance.

Four underlying principles in operation in better practice organizations:

- Plan for improvement;
- Apply materiality rigorously;
- Shift the workload; and
- Be consistent.

Better practice organizations set time, cost and quality targets for the 'close' process and tracked actual performance. It is appropriate to set a few, key measures for which data can be obtained cost-effectively and which are understandable. For the 'close the books' process the following measures are considered appropriate and should be tracked in each cycle:

- Time - elapsed days from end of the accounting period to production and distribution of financial reports. Establish target dates for completion of key steps within the process (eg. accruals, trial balance, adjustments, final reports).
- Errors - number of journals raised to correct errors (expressed as a percentage of total journals). It would also be appropriate to analyze the root cause of the errors-why, how and who-to eliminate the source of the errors.
- Automation - number of automated journal entries as a proportion of total journals.

While the latter two measures are proxies for cost, it is also appropriate to track the actual cost of the 'close the books' process as a proportion of the total cost of the finance function. This would normally be carried out annually, preferably as part of an overall benchmarking exercise for the finance function.

The following benchmarks are taken from the Arthur Andersen Global Best Practices® Knowledge space:

Time
Best 2 days
Common 5-7 days

Errors
Best 0.03%
Common 3-7%

Performing reconciliations is a key process which typically consumes a large proportion of resources and which can take a long elapsed time to investigate and reconcile differences.
In better practice organizations the adoption of integrated financial systems reduces the need for reconciliations by having single data entry update the general ledger and subsidiary records.

Tips for better reconciliation:

- Reconcile key accounts or difficult accounts more frequently, even daily
- Complete reconciliations away from the end of the period by negotiating new schedules for statements
- Replace reconciliations with variance analyses using tolerances based on materiality guidelines
- Integrated accounting systems will reduce the need for reconciliations

Many organizations process a large number of journals at period end for a variety of reasons including posting accruals, allocating costs and reclassifying income and expenditure. These journals have two common features: they are recurring and are manually compiled and processed. Better practice organizations seek to automate the computation and processing of these journals to improve the efficiency of processing and to minimize the chance of human error.

Better practice organizations also examine the journals from the perspective of their materiality. Journals that reclassify income and expenditure, or those which correct errors, which are not material to the key performance indicators can be processed during the next accounting period, helping to flatten workload.

Tips for better journal management:

- Automate recurring manual entries
- Only process reclassifications and allocations at period end that are significant to the business
- Track and analyze errors to eliminate root causes

Better practice organizations exploit technology to generate and deliver periodic financial reports. It is now common practice to download data from the trial balance into protected electronic spreadsheets, and in conjunction with word processing and graphics packages, to generate the necessary reports. Although serving a purpose, there are potential problems with this approach. The more complex the spreadsheet the greater chance of error, particularly when formats or reporting structures change.

The increasing flexibility and functionality of integrated reporting modules provides an opportunity to streamline the reporting process further and to minimize the potential for error. Such modules deliver an 'executive information system' which eliminates the need to generate large volumes of paper-based reports. Electronic distribution of reports, or preferably provision of access to the executive information system, will ensure that managers only receive the information they need and use.

Tip for better reporting:

- Use an executive information system to ensure all managers share the same data

Finance/Financial Reporting

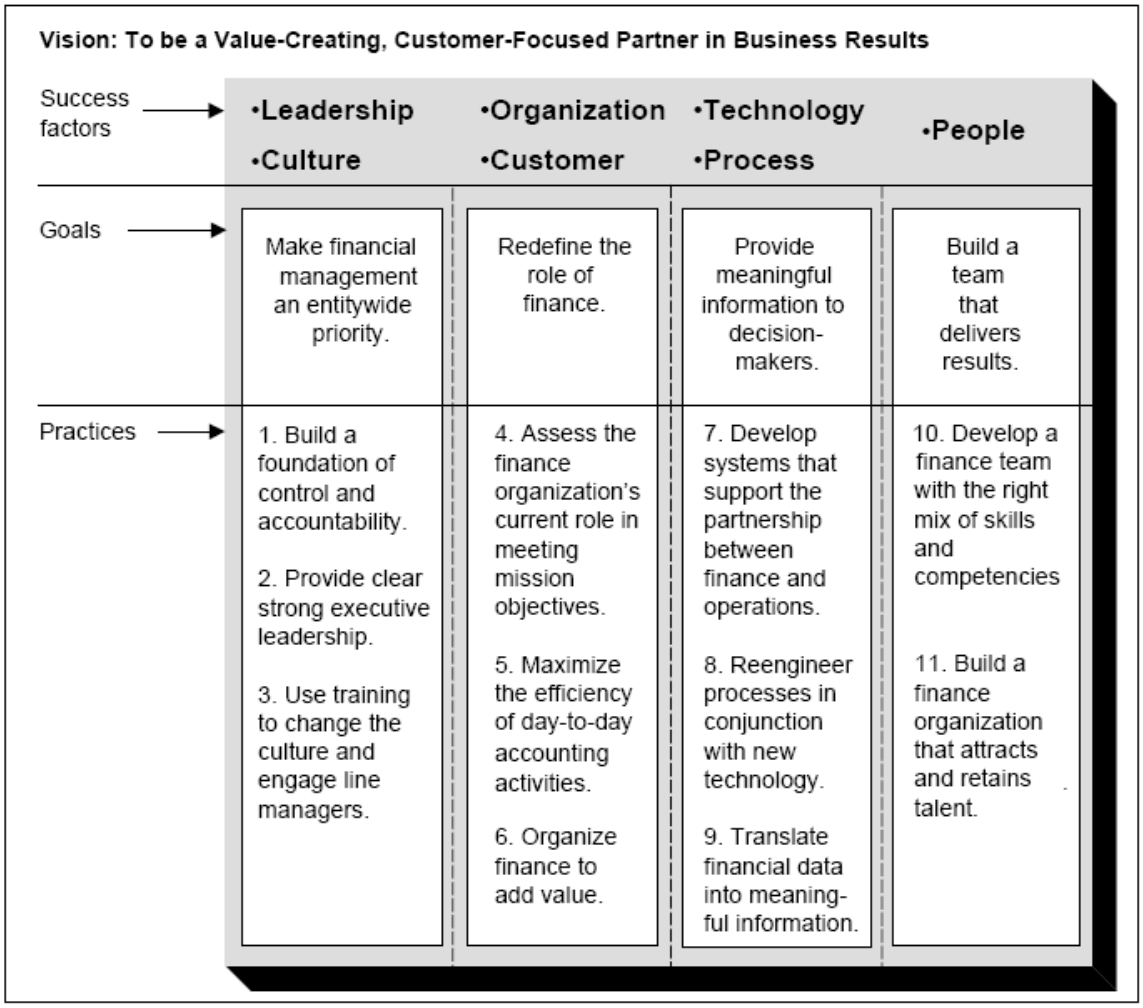
Notes from –
"Creating Value Through World-Class Financial Management",
General Accounting Office, April 2000

Creating a government that runs more efficiently and effectively has been a public concern for decades. In recent years, however, the push towards creating a smaller, more results oriented government has intensified the urgency to find ways to do more with less. To effectively evaluate and improve the value derived from government programs and spending, the Congress and other decision-makers must have accurate and reliable financial information on program cost and performance. Further, they must be able to rely on federal finance organizations to provide analysis and insight about the financial implications of program decisions and the impact of those decisions on agency performance goals and objectives. Currently, financial data are not always useful, relevant, timely, and reliable enough to be used for federal decision-making, and many federal finance organizations are not yet well equipped enough to routinely provide analysis or advice related to this information.

Leading Finance Organizations

Private sector	State governments
The Boeing Company	Massachusetts
Chase Manhattan Bank	Texas
General Electric Company	Virginia
Hewlett-Packard	
Owens Corning	
Pfizer Inc	

A world-class finance organization can best be defined in terms of the business outcomes it produces – outcomes such as improved business analysis, innovative solutions to business problems, reduced operating costs, increased capability to perform ad-hoc analysis, and improved overall business performance. To build a world-class finance organization and help achieve better business outcomes, each of the organizations we examined set an agenda for transforming the finance organization by defining a "shared vision" — i.e., a mission, a vision for the future, core values, goals, and strategies—geared toward making the finance organization a value-creating, customer-focused partner in business results. Although the techniques used varied depending on the organization's size and culture and some efforts were more mature than others, the goals, practices, and success factors outlined in the following illustration were instrumental in the organization achieving its vision.



Practice 1 -- Build a Foundation of Control and Accountability That Supports External Reporting and Performance Management

Key characteristics

- The financial reporting and audit process is a basic management and oversight tool.
- Accountability is part of the organizational culture and goes well beyond receiving an unqualified audit opinion.
- Internal controls meet both external financial reporting and performance management control objectives without significantly impacting efficiency.

Case Study – Commonwealth of Virginia

To build a foundation of control and account-ability, senior government leaders in the Commonwealth of Virginia had clear goals and objectives that went beyond receiving an unqualified audit opinion. With the passage of the Single Audit Act in 1984, the Commonwealth of Virginia had to produce and have audited Comprehensive Annual Financial Reports (CAFR) for the first time. Although not required by the act, the state Comptroller had each state agency also produce audited financial statements, thereby ensuring accountability at every level of government rather than solely at those levels considered material to CAFR.

The goal was to ensure that managers and lawmakers would have useful, relevant, and timely information for assessing and managing program performance. Now that Virginia routinely receives an unqualified opinion on its CAFR, only those state agencies with a specific need (e.g., agencies' operating trust, enterprise and internal service funds) are required to produce auditable financial statements. The remaining agencies now are required to certify the accuracy of financial information that feeds CAFR. By subjecting all state agencies to the rigorous discipline of preparing financial reports and having them audited, the Comptroller increased accountability for data accuracy beyond that required to receive an unqualified audit opinion. State officials continue to raise the bar and seek new ways to increase accountability and improve the state's performance.

For example, the Department of Planning and Budget currently performs trend analysis and prepares fiscal impact statements for the state's legislature, using useful, relevant, and timely financial information from the state's integrated budget and accounting systems. Also, to ensure that performance data and long-range plans drive budget decisions, the state has set goals, including implementing an activity-based accounting and budgeting system, for enhancing its performance budgeting process.

Case Study -- Texas

Similarly, in Texas the performance management system is an integral part of agency and statewide planning structures, evaluation and decision-making processes, and accountability systems. Creating and maintaining a performance management system required close, consistent, and coordinated attention above and beyond that required for external financial reporting purposes.

In Texas, the ability to produce fairly stated external financial reports was only the first step in building a more effective, results-oriented government. An unqualified opinion on the state's CAFR provided, assurance that financial information was accurate and reliable for evaluating its overall financial position. However, an unqualified audit opinion by itself does not ensure that the information needed to measure and manage performance is useful, relevant, timely, or reliable. The internal controls that were considered adequate for external financial reporting were not always sufficient for performance management. For example, internal controls over expenditure data met the control objectives for aggregating and reporting this information on the financial statements; however, they did not meet the objectives for calculating per-unit cost efficiency measures required for performance management.

Therefore, state agencies, with the help of the State Auditor's Office, reevaluated and redesigned agency internal controls to meet both external financial reporting and performance management control objectives. Because the state routinely receives an

unqualified opinion on its CAFR, the State Auditor's Office and agency internal auditors no longer spend the bulk of their time on control issues related to external financial reporting. Instead, their focus is on improving the reliability of performance management information.

Strategies to Consider

To build a foundation of control and accountability, senior executives could:

- Leverage audit resources and the financial statement audit process to improve data reliability and increase accountability.
- Increase accountability by establishing goals for (1) producing financial and performance reports for major programs and/or business segments and (2) moving the organization toward more frequent financial reporting (e.g., quarterly, monthly).
- As part of the agency's GPRA performance planning process, (1) establish efficiency criteria that measure the cost associated with program outcomes and (2) develop an approach for assessing and improving agency internal controls over finance-related efficiency measures.
- Use accounting and operational performance data to support budget formulation and strategic planning.

Practice 2 -- Provide Clear, Strong Executive Leadership

Key characteristics

- The chief executive recognizes the important role the finance organization can play in improving overall business performance and involves key business/line managers in financial management improvement initiatives.
- The CFO is a member of the top management team.
- Top executives' sustained commitment to improving financial management is reinforced through both their words and actions.

Strategies to Consider

To demonstrate and reinforce commitment to improving financial management, heads of agencies and senior executives could:

- Form an executive management team (heads of component organizations and those reporting directly to the agency head) to establish a vision and fundamental goals and provide sponsorship for each major financial management improvement project.

- Involve key program /business managers in driving financial improvement initiatives.
- Develop a plan to ensure that all key constituents visibly support financial management improvement initiatives.
- Actively market the program benefits of financial management improvement efforts to secure the necessary resources and Congressional support.
- Establish an expectation that top financial executives, as part of the top management team, provide forward looking analysis that creates a link between accounting information and budget formulation and contributes to strategic planning and decision-making.

Practice 3 -- Use Training to Change the Organizational Culture and Engage Line Management

Key characteristics

- Nonfinancial managers are educated about the financial implications of business decisions.
- Training and tools are provided to facilitate and accelerate the pace of change initiatives.

Strategies to Consider

To engage line management and create a culture that values good financial management, heads of agencies and senior executives could:

- Identify key financial and non-financial managers and staff whose support is critical to the success of financial management improvement initiatives.
- Develop curriculum and provide training that teaches key non-financial managers and staff how to:
    - use financial information to improve operational planning and decision-making and
    - reform legislation (e.g. CFO Act, GMRA, FFMIA, GPRA) will affect operating unit roles, responsibilities, and processes within the context of specific agency operations.
- For all key managers and staff, develop curriculum and provide training that provides a framework and tools that can be used to facilitate and accelerate the pace of change initiatives.

Practice 4 -- Assess the Finance Organization's Current Role in Meeting Mission Objectives

Key characteristics

- The percentage of resources spent on strategic support activities is used as an indicator of how well finance is supporting mission objectives.
- Benchmarking and customer feedback is used to identify performance gaps and best practices.

Strategies to Consider

To assess the finance organization's current role in meeting mission objectives, agency CFOs and senior finance executives could:

- Identify all major functions performed by the finance organization (e.g., accounts payable, payroll, performance reporting, performance analysis) and group each function into meaningful categories (e.g., transaction processing, control and compliance, mission support).
- Establish and monitor agency specific performance goals and measures that reflect the finance organization's role in meeting mission objectives (i.e., the percentage of time or resources devoted to mission support vs. transaction processing or control and compliance activities).
- Benchmark financial management practices and processes with recognized industry leaders (e.g. the cost of finance as a percentage of total outlays, unit cost per accounting transaction) in order to measure performance and identify best practices.
- To the extent that operating in a federal environment affects specific benchmarks, compare financial management practices and processes with other federal agencies to provide a context with which to interpret benchmarking results.
- Periodically survey internal customers to obtain information related to the quality and value of the products and services they receive and use this information to guide improvement initiatives.

Practice 5 -- Maximize the Efficiency of Day-to-day Accounting Activities

Key characteristics

- Inefficient processes are eliminated or streamlined.
- Transaction processing activities are consolidated, standardized, and reengineered at shared service centers.
- The cost and benefits of outsourcing routine accounting activities are considered.

Strategies to Consider

To maximize the efficiency of day-to-day accounting activities, senior executives could identify high-volume processes or transactions that do not directly support the agency's mission (low value, low-risk) and evaluate opportunities for:

- Consolidating, standardizing, and reengineering transaction processing and other routine accounting activities at a shared service center, initially by department and then across departments;
- Eliminating, streamlining, or reengineering costly, inefficient transaction processing and routine accounting activities, or
- Outsourcing transaction processing and routine accounting activities.

Practice 6 -- Organize Finance to Add Value

Key characteristics

- The finance organization's mission supports the entity's business objectives.
- The organizational structure and human capital strategies support strategic business unit needs as well as traditional controllership and transaction processing needs.

Strategies to Consider

To organize finance to add value, senior executives could:

- Define the finance organization's mission, vision for the future, core values, goals, and strategies to support the agency's overall mission objectives.
- Develop an explicit workforce planning strategy that is linked to the agency's strategic and program planning efforts to ensure that financial managers and staff with skills for analyzing and interpreting financial data will support the

agency's strategic planning and decision-making needs at both the field and headquarters level. (See practices 10 & 11 for information on attracting, retaining, and developing financial professionals).

Practice 7 -- Develop Systems That Support the Partnership Between Finance and Operations

Key characteristics

- The general ledger system is integrated into business processes and is adequate for financial reporting and control.
- Automated system(s) are designed and deployed that (1) accurately measure the costs of activities, processes, products, and services and (2) provide line managers with timely, accurate financial and nonfinancial information on the quality and efficiency of business processes and performance
- An enterprisewide system integrates operating, financial, and management information and allows decisionmakers to access relevant information easily and perform ad-hoc data analysis.

Strategies to Consider

To develop systems that support the partnership between finance and operations senior executives could:

- Acquire and install a general ledger system adequate for external financial reporting purposes.
- Develop managerially relevant cost information systems and strategic performance management systems that access data from financial transaction systems and relevant operating systems.
- Integrate the agency's financial (including budgetary), operating, and management systems and equip decision makers with the tools to easily access relevant information and perform ad-hoc analyses.
- Ensure that financial systems comply with state/federal financial management systems requirements, accounting standards, and the U.S. Government Standard General Ledger by
    - Establishing the goal of using a single general ledger chart of accounts (the U.S. Government Standard General Ledger) and
    - Developing an interim approach to convert general ledger accounts not consistent with the U.S. Government Standard General Ledger. This approach should use automated cross-walks performed by those business segments responsible for the data.

Practice 8 -- Reengineer Processes in Conjunction With Implementing New Technology

Key characteristics

- Commercial off-the-shelf software packages implemented with limited modification.
- Processes and controls adapted to fit commercial off-the-shelf software.
- Processes are reengineered across functional lines.

Strategies to Consider

To reengineer processes that support new technology, senior executives could:

- Form cross-functional teams to (1) examine existing core business processes and (2) define user requirements.
- Compare COTS products against the agency's requirements and identify the COTS packages that most closely match the agency's needs.
- Reevaluate user requirements not supported by COTS software and determine, before customizing software, whether each requirement is still valid or whether alternatives exist that may be more cost-effective.
- Where software modifications are required, implement an effective configuration management system that includes (1) clearly defining and assessing the effects of modifications on future product upgrades before the modification is approved, (2) clearly documenting software products that are placed under configuration management, and (3) maintaining the integrity and traceability of the configuration throughout the system life cycle.
- Implement a quality assurance process that ensures that project activities and software products adhere to management's established plans, standards, and procedures. This includes ensuring that the configuration management process is effectively implemented and that product changes are clearly documented and tested before being placed into production.
- Implement an effective risk management strategy to ensure that project risks, such as customization and vendor's ability to deliver a given system, are adequately identified and effective mitigation strategies are implemented.

Practice 9 -- Translate Financial Data into Meaningful Information

Key characteristics

- Reports are designed around key drivers such as markets, products, and customers.
- Relevant financial information is presented in an understandable, simple format with suitable amounts of detail and explanation.

Strategies to Consider

To improve management reporting of financial information, senior finance executives, as part of the top management team, could:

- Meet with key policymakers and managers on an ongoing basis to define key business drivers and determine what key business information is needed for management and oversight of the agency's mission and objectives.
- Determine what information is needed by program executives and managers to meet and support key business information requirements.
- Present various reporting format and content options to executives, managers, and Congressional Committees.

Practice 10 -- Develop a Finance Team with the Right Mix of Skills and Competencies

Key characteristics

- A defined set of technical, management, and leadership skills and competencies is developed as part of the entity's overall approach to strategic human-capital planning and is used as a foundation for all human-capital management activities and decisions.
- Training and career development programs use both classroom instruction and rotational assignments.
- Opportunities to "learn the business" are provided.

Strategies to Consider

To develop a team with the right mix of skills and competencies, senior executives could:

- As a part of an agency wide strategic approach to human capital planning –

(1) Determine the leadership, management, and functional/technical competencies required for the finance organization to support agency missions, goals, and objectives,
(2) Evaluate the finance organization's current and future human capital capabilities,
(3) Identify skill gaps,
(4) Develop human capital policies and practices that will allow agencies to fill the identified skill gaps, and
(5) Evaluate these efforts and use performance data to continually update human capital strategies.

- As a first step, assess the finance organization's human capital policies, programs and practices to determine whether they support the organization's mission and vision for the future.
- Using both classroom training, planned staff rotations, and interagency assignments, design a career development program geared toward --
    - Improving leadership, management, and traditional financial management competencies, including the analytical skills needed to support program decision making;
    - Understanding how reform legislation (e.g., CFO Act, GMRA, FFMIA, GPRA) will affect the finance organization's roles, responsibilities, and processes within the context of specific agency operations; and
    - Understanding overall agency operations, including program implications of financial
- Establish continuing professional education requirements for financial managers similar to those required for auditors.

Practice 11 -- Build a Finance Organization that Attracts and Retains Talent

Key characteristics

- Top financial leadership participates in the recruitment of new talent.
- A variety of clear career path opportunities are offered and staff development programs are used as a means of exposing staff to different career opportunities.
- Competitive compensation and benefits packages are available.

Strategies to Consider

To build an organization that attracts and retains talent, the CFO and senior executives could:

- Actively work with colleges and universities to (1) market the opportunities available for financial professionals and (2) include a federal accounting and financial management curriculum that will not only prepare students for careers in federal accounting but will also help promote federal career possibilities.
- Continue to work with the Office of Personnel Management to provide more flexible career paths that provide opportunities for movement throughout the finance organization and agency program offices.
- Utilize staff development programs and planned staff rotations to expose financial managers and staff to a variety of career paths.

Notes from **DEREK BASHAM** –

(Based on information contained in **"Accounting Best Practices"**, by Steven M Bragg)

Financial Reports

1. Move operating data to other reports
2. Post financial statements in an Excel PivotTable on the Internet
3. Restrict the level of reporting
4. Write financial statement footnotes in advance

Work Automation

1. Automate recurring journal entries
2. Automate the cut-off

Work Elimination

1. Avoid the bank reconciliation
2. Defer routine work
3. Eliminate multiple approvals
4. Eliminate small accruals
5. Reduce investigation levels

Work Management

1. Assign closing responsibilities
2. Conduct transaction training
3. Continually review wait times
4. Convert serial activities to parallel ones
5. Create a closing schedule
6. Document the process
7. Restrict the use of journal entries
8. Train the staff in closing procedures
9. Use cycle counting to avoid month-end counts
10. Use internal audits to locate transaction problems in advance
11. Use standard journal entry forms

Work Timing

1. Complete allocation bases in advance
2. Conduct daily review of the financial statements